DOCKET FILE COPY ORIGINAL

EX PARTE OR LATE FILED

RECEIVED

AUG 13 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

1850 M Street, NW, Suite 1100
Washington, DC 20036
Telephone: (202) 828-7452
Fax: (202) 822-8999

Warren D. Hannah
Director – Federal Regulatory Relations
Local Telecommunications Division

EX PARTE

August 13, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: In the Matter of Federal-State Joint Board on Universal Service - CC Docket No. 96-45

Dear Mr. Caton:

On Monday, August 12, 1996, representatives of Sprint Corporation met with The Honorable Sharon L. Nelson, Chairman of the Washington Utilities and Transportation Commission and a member of the Federal-State Joint Board established in the above referenced proceeding. Representing Sprint Corporation were Messrs. Jim Sichter, Rod Thompson, Mark Askins and Ms. Nancy Judy.

Sprint's proposals, filed on April 12, 1996, in the above referenced were discussed during the meeting. Also discussed was the appropriateness of using the Benchmark Cost Model ("BCM") as the basis for measuring the costs of providing services for universal service funding purposes. The original BCM was filed on September 12, 1995, in the Commission's CC Docket No. 80-286 and was significantly enhanced and filed as BCM2 on July 3, 1996, in the above referenced proceeding. BCM2 has been used to identify basic service costs for all 50 states and the District of Columbia. The attached information was used during the meeting.

This required notification is being provided today since the meeting concluded at approximately 3:00 p.m. Pacific daylight saving time (DST) or 6:00 p.m. Eastern DST, which is after the Commission's close of business. We request that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1) of the Commission's Rules and Regulations, are provided for this purpose.

Please call on the above telephone number if there are any questions.

Sincerely,

Warren D. Hannah

Attachment

c: Members of the Federal-State Joint Board
Ms. Deborah Dupont, FCC, Washington, DC
Mr. Jim Sichter, Sprint, Westwood, Kansas
Mr. Rod Thompson, Sprint, Westwood, Kansas
Mr. Mark Askins, Sprint, Westwood, Kansas
Ms. Nancy Judy, Sprint, Hood River, Oregon
Mr. Jay Keithley, Sprint, Washington, D.C.

SPRINT COMPREHENSIVE PLAN FOR UNIVERSAL SERVICE SUPPORT

August 12, 1996

Sprint.

Goals and Principles of Universal Service Support Mechanisms (Section 254(b))

① QUALITY AND RATES - Quality services should be available at just, reasonable, and affordable rates.

② ACCESS TO ADVANCED SERVICES - Access to advanced telecommunications and information services should be provided in all regions of the nation.

③ ACCESS IN RURAL AND HIGH COST AREAS - Consumers in all regions of the nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

④ EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS - All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.

⑤ SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS - There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service.

⑥ ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES - Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).

⑦ ADDITIONAL PRINCIPLES - Such other principles as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act.

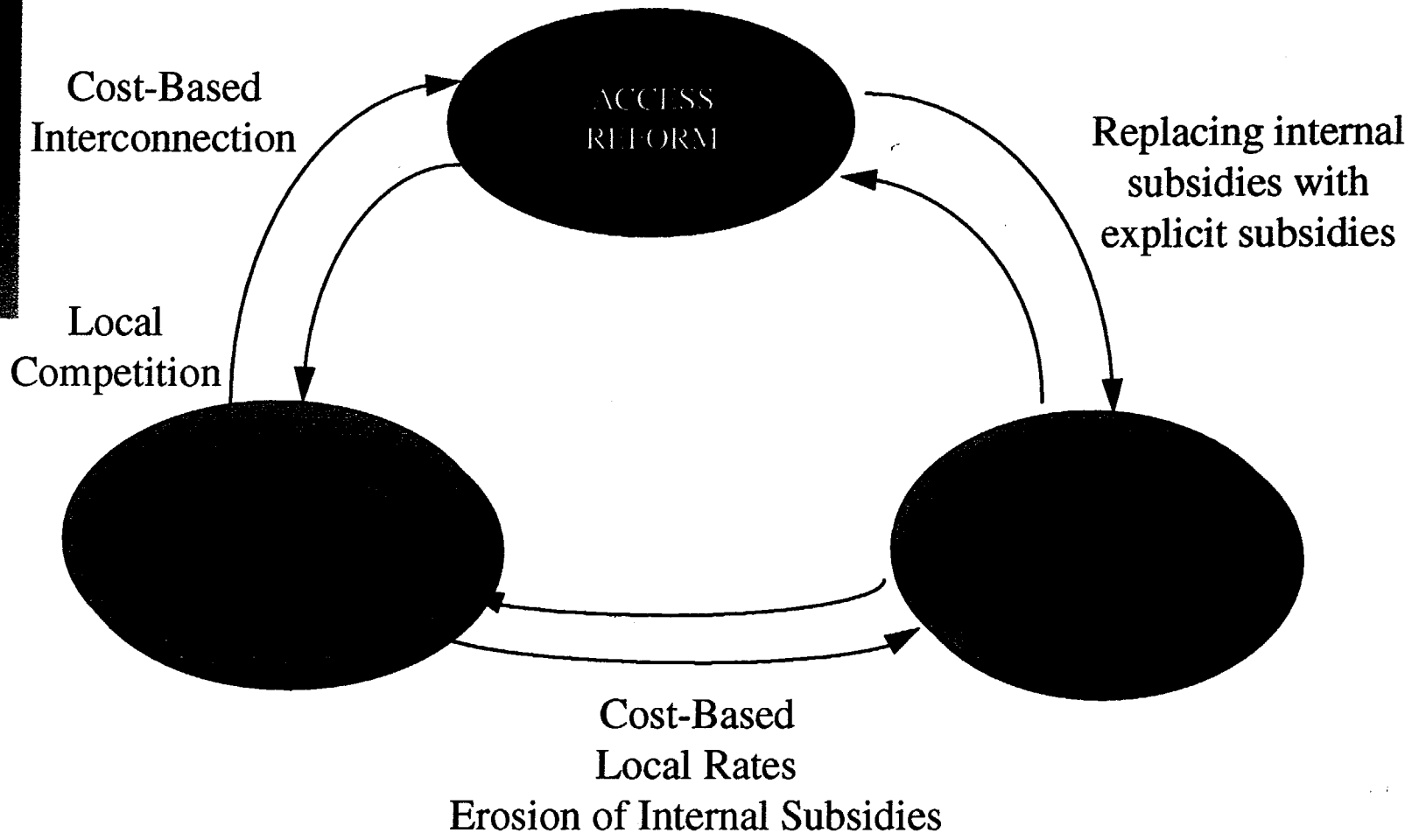
Sprint.

TELECOMMUNICATIONS ACT OF 1996

Maintaining Universal Service Support through internal "cross subsidies" is Inconsistent with the Telecom Act, and is Incompatible with, and Unsustainable in, a Competitive Market Place

- Problems with Embedding "Subsidies" in LEC Prices
  - Neither explicit nor targeted
  - Artificially low rates (for the subsidized services) are a barrier to competitive entry
  - Artificially high rates (for the services providing the subsidy)...
    - Provide incorrect price signals to potential entrants
    - Are unsustainable

Sprint.


Cost-Based
Interconnection
ACCESS
REFORM
Replacing internal
subsidies with
explicit subsidies
Local
Competition
Cost-Based
Local Rates
Erosion of Internal Subsidies

Sprint.

Sustainability of Current IX Access Rates in a Competitive Environment

New Entrants can undermine Access Rates

- If rate level too high (above economic costs)
- If rate structures inefficient
  - » e.g., per MOU recovery of fixed or NTS costs

Competitive Forces

- Facility Based Competitors
- Arbitrage through use of unbundled network elements

Sustainability Example: Carrier Common Line Charge (Sprint LTD Data)

Distribution of toll usage is highly skewed

Usage Segment	*Access Lines*	*% of Total*	*CCL Revenue (Inter & Intra)*	*% of Total*	*CCL Revenue Per Line*
Residential					
0	70,447	2.5%	$0	0.0%	$0.00
1-300	1,535,372	54.4%	$3,591,315	16.8%	$2.34
300-1000	939,235	33.3%	$9,753,185	45.5%	$10.38
1000-2000	226,939	8.0%	$5,399,230	25.2%	$23.79
2000-5000	50,405	1.8%	$2,335,103	10.9%	$46.33
5000+	2,358	0.1%	$348,841	1.6%	$147.94
Total	2,824,766	100.00%	$21,427,694	100.0%	7.59
Business					
0	193,955	14.3%	$0	0.0%	$0.00
1-300	814,255	60.2%	$1,355,680	12.7%	$1.64
300-1000	235,348	17.4%	$2,710,393	25.8%	$11.52
1000-2000	67,702	5.0%	$1,938,895	18.4%	$28.64
2000-5000	31,536	2.3%	$1,993,250	19.0%	$63.21
5000+	9,617	0.7%	$2,534,321	24.1%	$263.53
Total	1,352,413	100.0%	$10,512,539	100.0%	$7.77

Sprint.

Sustainability Example: Carrier Common Line Charge

Recovery of NTS Loop Costs through per MOU Charge

- Results in high users contributing well in excess of the costs of their loops
- Providing incentive for IXCs (or CLECs) to "cap" the access costs of serving these customers by serving them through either non-ILEC facilities or resold ILEC loops

	CCLC Revenue <u>*Generated by Customer*</u>	*Unbundled* <u>*Loop Cost*</u>	*Access Savings to IXC* <u>*Net Revenue gain to CLEC*</u>
Residential Customer	$46.33	$20.00	$26.33
Business Customer	$63.21	$15.00	$48.21

Sprint.

Loop Costs vs Common Line Revenue

Customer	SLC	Interstate CCL	Intrastate CCL	Total Common Line Rev.	Loop Cost (BCM)	Percentage of Loop Costs Recovered from SLC/CCLC Charges
A	$6.00	$21.52	$14.16	$41.68	$9.20	453%
B	$3.50	$0.18	$0.00	$3.68	$100.38	4%
C	$3.50	$1.78	$61.11	$66.39	$18.77	354%
D	$3.50	$2.26	$1.10	$6.86	$18.77	37%

*Actual United of Missouri customers - revenue based on 4/96 billing and usage records; cost based on benchmark cost model

Sprint.

Comparison between IX Access and Local Interconnection Pricing

	Loop	Local Switching	Transport	Transport RIC
IX Access (Industry Average)	$.00834/MOU	$.00991/MOU	$.00250/MOU	$.00674/MOU
Local Interconnection •(Transport and termination)	Not included	TE-LRIC* (.2c - .4c/MOU)	TE-LRIC*	Not included

*Per FCC 96-98 Order

Sprint.

Revenue Impact of Pricing IX Access at Local Interconnection Levels

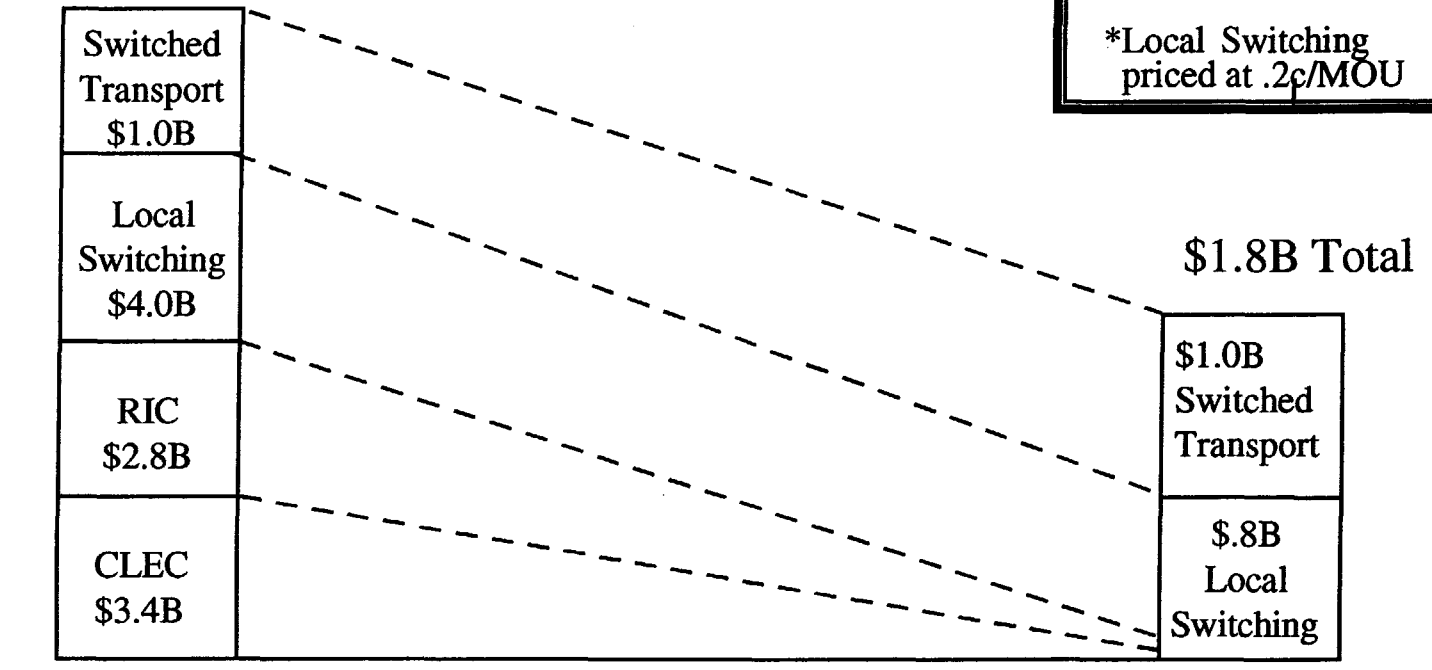
(Interstate Only)

Assumptions

*CCLC Eliminated

*RIC Eliminated

*Local Switching priced at .2¢/MOU



Current Switched Access Revenues

Switched Access Revenues at Local Interconnection Levels

Sprint.

SPRINT UNIVERSAL SERVICE PLAN

- Principles
- Services Eligible for Subsidies
- Determination of Subsidy
- Costing Standard
- Eligibility Criteria for Receiving the Subsidy
- Implementation
- Funding
- Administration of Funds

Sprint.

SPRINT PLAN

SPRINT UNIVERSAL SERVICE PLAN -- PRINCIPLES

- Competitive Neutrality
  - Should Not Impair Competition
    - All carriers should contribute to USF on an equitable basis
  - Subsidy Funding Should be Portable
    - Available to all qualified providers of local service
- Specific (Targeted)
- Predictable
- Fully Replace Current Internal (Implicit) Subsidy Flows, as well as Existing Explicit Subsidy Funding

Sprint.

SPRINT PLAN
SERVICES ELIGIBLE FOR SUBSIDIES

- Residential Services Only
- Initial Service Definition
  - Local Dial Tone and Ability to Make Local Calls
  - Access to Chosen Long Distance Carrier
  - Access to Emergency Services
  - Single Party Service
  - Touch Tone
  - Annual Local Directory
  - Directory Assistance

Sprint.

SPRINT PLAN
DETERMINATION OF SUBSIDY

- Income Related Subsidies
  - Lifeline, Linkup, and Other Explicit Subsidy Mechanisms to Support Low Income Subscribers Would Continue
- High Cost Area Subsidies
  - Available to Subsidize Basic Residential Service in Areas Where the Costs of Providing Service Exceed National and State Standard for "Affordable" Rate

Sprint.

SPRINT PLAN
COSTING STANDARD FOR DETERMINING HIGH COST AREAS

- The Benchmark Cost Model Should be the Basis for Measuring the Costs of Providing Services for USF Purposes.
  - The BCM is a Reasonable Proxy for the Economic Costs of Serving a Particular Area
- Advantages of the BCM
  - Based on Objective, Verifiable, Public Data and Accepted Network Engineering Standards
    - Cost Results not Distorted by Historic Accounting and Depreciation Policies
    - Does Not Require Arbitrary Allocations or Dissagregations of Existing Investment to Smaller Geographic Units
    - Avoids Controversy Over Whether Embedded Costs Represent "Efficient" or "Inefficient" Management

Sprint.

SPRINT PLAN
COSTING STANDARD FOR DETERMINING HIGH COST AREAS

Advantages of the BCM (continued)

- Competitively Neutral
  - Subsidy funding (per subscriber) will be the Same for all Service Providers
  - The BCM is a Proxy for the Costs that <u>Any Efficient Provider</u> would Incur in Providing Service to a Particular Area
    - Subsidy Amount Not biased by an Incumbent's Embedded Costs
    - Provides Incentive for Competitive Entry into High Cost Areas
    - Provides Incentive for Efficiency
    - Provides Incentive for Innovation

Sprint.

SPRINT PLAN
COSTING STANDARD FOR DETERMINING HIGH COST AREAS

Advantages of the BCM (continued)

- Disaggregation of Costs By Census Block Group (CBG)
  - More Precisely Identifies Truly High Cost Areas
  - Avoids Competitive distortions Inherent in Using Higher Levels of Aggregation (e.g. exchange or study area) for USF Purposes
    - Basing Subsidies on Averaged Costs will not Provide New Entrants Sufficient Incentives to Serve Those Areas Where Costs Exceed the Average (potentially leading to "cream-skimming")

Sprint.

SPRINT PLAN
DETERMINATION OF THE AMOUNT OF SUBSIDY

- The Amount of Subsidy Provided for a CBG Would be the Difference Between
  - The National Benchmark Price for Basic Residential Service (i.e., the maximum rate determined to be "reasonable" and "affordable"), and the
  - BCM-Calculated Cost For that CBG
- The National Benchmark Price Should be Set at Least at the National Average Rate for Basic Residential Service in Urban areas, Including the Existing Subscriber Line Charge.
- State USF Plans Could Use the Same Methodology to the Extent State Repricing Does Not Resolve All State-Specific Subsidies

Sprint.

SPRINT PLAN

DETERMINATION OF THE AMOUNT OF SUBSIDY: EXAMPLE

Assume:

Federal Subsidy (per Access Line)

1.	BCM Cost	$30
2.	FCC Benchmark Price	$20
3.	Federal Subsidy (L1-L2)	$10

State Subsidy (Per Access Line

4.	State Benchmark Price	$15
5.	State Subsidy (L2-L4)	$5

Sprint.

SPRINT PLAN

USF FUND SIZE AT ALTERNATIVE NATIONAL BENCHMARK PRICE LEVELS

Summary Model Results
National Total
($) (Billions)

Annual	
Benchmark Cost	$59,252
Aggregate Support	
at $20	$14,666
at 30	$7,425
at 40	$4,259
Average	
Monthly Cost	$29.98

Sprint.

SPRINT PLAN
ELIGIBILITY CRITERIA FOR RECEIVING THE FUNDING

- USF Funding Will be Available to Both Incumbent LECs and New Entrants
- To Qualify for USF Funding, an ETC (Eligible Telecommunications Carrier) Must:
  - Be Willing to Serve the Entire Service Area
  - Offer All of the Services that are Supported by the Fund
  - Use Their Own Facilities or a Combination of Owned Facilities and Resale of Another Carrier's Facilities
- An ETC Will Receive Support Only Where It Provides Service Either Over Its Own Facilities or Over Resold Facilities For Which It Pays Cost-Based Rates
- USF Support Should be Portable (When Subscribers Change Their Local Service Provider, the Subsidy Payment Should Then Go to the New Service Provider)

Sprint.

SPRINT PLAN IMPLEMENTATION

- The Expansion of USF Support Should
  - Replace Existing Implicit and Explicit Subsidies
  - Be Revenue Neutral to the Incumbent LEC at Time of Implementation
- Implementation Steps
  - Each Incumbent LEC Would Quantify its Net Change in USF Support (i.e., USF Support Under the New Plan Less USF Support it Received Under the Existing Plan)
  - The Incremental USF Funding Would Flow Through, Dollar for Dollar, in Reductions in Embedded Subsidies; e.g.,
    - CCLC
    - Transport RIC

Sprint.

Example

If:

Subsidy based on	
Nat'l Benchmark price,	$100
Existing USF	$5
Net Increase in USF	$95

Then:

Access Subsidy Reduction		
CCC	total CCLC Revenues = $80	
	CCLC Revenue Reduction	$80
RIC	Total RIC revenues = $20	
	RIC Revenue Reduction ($95-$80)	$15

Total Access subsidy reduction $95

Sprint.